

# IP NEWSLETTER

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## SUPREME COURT RESTRICTS THE EXTRATERRITORIAL REACH OF U.S. PATENT LAW FOR EXPORTED GOODS

By [Matthew M. D'Amore](#), [Hector G. Gallegos](#), and [Aaron D. Rauh](#)



On February 22, 2017, the Supreme Court in a landmark decision held that the supply of a single component of a multicomponent

invention for manufacture abroad does not give rise to liability under 35 U.S.C. § 271(f)(1). *See Life Techs. Corp. v. Promega Corp.*, 580 U.S. \_\_\_ (2017). This ruling curbs the extraterritorial reach of U.S. patent law and provides increased certainty for U.S. producers, which can now export a single component of a foreign-manufactured, multicomponent patented product without running afoul of § 271(f)(1).

### LIABILITY UNDER 35 U.S.C. § 271(F)(1)

While the Supreme Court has recognized a presumption against extraterritoriality with respect to U.S. patent law,<sup>1</sup> 35 U.S.C. § 271(f)(1) contemplates some level of foreign activity contributing to infringement liability in the United States:

Whoever without authority supplies or causes to be supplied in or from the United States all or a *substantial portion of the components of a patented invention*, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.<sup>2</sup>

The Supreme Court interpreted the phrase “a substantial portion of the components of a patented invention” to require a quantitative application (*i.e.*, more than one component). Thus, the Supreme Court reversed the Federal Circuit’s decision that “a substantial portion” should be interpreted qualitatively, such that the exportation of a single critical component, without which the infringing product could not function, can violate § 271(f)(1).

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## BACKGROUND

Life Technologies Corp. (“LifeTech”) made or procured Taq polymerase, an enzyme used for amplifying DNA for analysis, in the United States and supplied that enzyme to a manufacturing center in the United Kingdom. There, the enzyme was packaged with four other components into a genetic testing kit to be sold worldwide, including in the U.S. Promega Corp. (“Promega”) sued for patent infringement, contending, among other things, that the genetic testing kit manufactured in the UK would infringe a U.S. patent. Promega argued that LifeTech’s shipment from the U.S. of the kit’s Taq enzyme made LifeTech liable for damages based on sales of the kit worldwide, under 35 U.S.C. § 271(f)(1).

The jury found for Promega and awarded lost profits based on the worldwide sales of LifeTech’s kits. The district court overturned that verdict, holding that because §271(f)(1) refers to the supply of “all or a substantial portion of the components of a patented invention,” it could not apply to the export of a single component from the U.S.

In *Promega Corp. v. Life Techs. Corp.*, 773 F.3d 1338 (Fed. Cir. 2014), the Federal Circuit reversed. Focusing on whether the polymerase represented a “substantial portion” of the kit, the court observed that “[w]ithout Taq polymerase, the genetic testing kit recited in the [Promega] patent would be inoperable” and that “LifeTech’s own witness admitted that the Taq polymerase is one of the ‘main’ and ‘major’ components of the accused kits.”<sup>3</sup> The appellate court thus found that § 271(f)(1) was satisfied by the supply of a single component: “The evidence demonstrates that LifeTech supplied a substantial portion of the patented invention—the polymerase—to its overseas facility as a component of its accused genetic testing kits.”<sup>4</sup>

## THE SUPREME COURT’S RULING

In an opinion by Justice Sotomayor, the Supreme Court reversed the Federal Circuit’s decision. The Court held that “a substantial portion” has a quantitative, not a qualitative, meaning, and thus the export of a single component of a multicomponent invention does not violate §271(f)(1).<sup>5</sup> The Court relied heavily on the context in which the disputed phrase appears in the statute, given that the Patent Act does not define the term “substantial” and that the ordinary meaning of the term can refer “either to qualitative importance or to quantitatively large size.”<sup>6</sup> The Court concluded that the neighboring words in the statute—“all” and “portion”—convey quantitative meaning.<sup>7</sup>

The Court also rejected Promega’s case-specific approach that would require both a qualitative and quantitative

analysis to determine whether the “substantial portion” requirement is met under either test. According to the Supreme Court, such an approach would not only compound the ambiguity in applying §271(f)(1), but would not help resolve close cases. The Court reasoned: because “few inventions . . . would function at all without any one of their components . . . . [h]ow are courts—or, for that matter, market participants attempting to avoid liability—to determine the relative importance of the components of an invention?”<sup>8</sup>

Given that its determination that “substantial portion” has a quantitative meaning, the Court further held that a single component cannot ever constitute “a substantial portion” for liability under the statute, again relying on the context in which the disputed phrase appears in the statute.<sup>9</sup> The Court also explained that the history of §271(f)’s enactment supported its holding.

Justice Alito, joined by Justice Thomas, concurred in part and concurred in the judgment, joining all of the Court’s opinion except its reliance on the legislative history of §271(f). Additionally, the concurrence noted that the Court’s decision does not establish how many components are necessary to give rise to liability under the statute.

## TAKEAWAYS

The Supreme Court’s decision in *LifeTech* resolves at least some ambiguity—manufacturers now know that the supply of a single component of a patented invention from the United States will not violate 35 U.S.C. § 271(f)(1). But the relative simplicity of the invention in *LifeTech* led the Court to answer the narrow question it was asked, and thus it did not reach the broader question of how many “components” or what fraction of “components” make up a “substantial portion of the components of a patented invention.” In the words of the concurrence by Justices Alito and Thomas, “today’s opinion establishes that more than one component is necessary, but does not address how much more.”<sup>10</sup> That question will be left to subsequent courts to answer.

1 See *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454-55 (2007) (“The presumption that United States law governs domestically but does not rule the world applies with particular force in patent law.”).

2 35 U.S.C. § 271(f)(1) (emphasis added).

3 *Promega Corp. v. Life Techs. Corp.*, 773 F.3d 1338, 1356 (Fed. Cir. 2014), cert. granted in part, 136 S. Ct. 2505 (2016).

4 *Id.*

5 *Life Techs. Corp. v. Promega Corp.*, 580 U.S. \_\_\_, slip op. at 11.

6 See *id.* at 5.

7 See *id.* at 5-6 (“‘All’ means the entire quantity, without reference to relative importance. . . . ‘Portion’ likewise refers to some quantity less than all.”).

8 *Id.* at 7-8.

9 See *id.* at 9-10.

10 *Id.*, Concurrence at 1 (emphasis in original).

# THE LACHES DEFENSE LOSES ITS GRIP IN PATENT LAW

Parisa Jorjani and Wesley E. Overson



Until recently, laches had been available as a defense in patent litigation without much debate. The defense often arose in the context of demand

letters: a patentee would threaten an accused infringer, but would then wait several years before finally pulling the trigger on a lawsuit. An accused infringer who could prove some prejudice as a result of the unreasonable delay could invoke the laches defense to bar damages up to the time of suit. Moreover, the delay was presumed to be unreasonable if the patentee had waited more than six years after having knowledge of the alleged infringement. The Supreme Court's ruling in *SCA Hygiene v. First Quality*, however, has eliminated laches in patent cases.

## BACKGROUND

In 2014, the Supreme Court held in *Petrella v. Metro-Goldwyn Mayer* that laches could not be used as a defense to bar a claim for copyright infringement. A key issue in *Petrella* was the fact that the Copyright Act includes a three-year statute of limitations for bringing a claim for damages, which the Supreme Court found trumps any equitable defense to an action brought during the statutory time period: "in the face of a statute of limitations enacted by Congress, laches cannot be invoked to bar legal relief."

One year later, in *SCA Hygiene v. First Quality*, the applicability of *Petrella* in the patent litigation context was tested in the Federal Circuit. The initial panel rejected the argument that *Petrella* abolished the defense in patent cases, and the full Federal Circuit subsequently upheld the panel decision following rehearing *en banc*, and reconfirmed that laches is a cognizable defense in patent litigation. In particular, the court was persuaded by the argument that Congress had codified an exception to § 286 by providing in § 282 that "unenforceability" shall be a defense in patent litigation, and that laches is a defense based on unenforceability.

## USSC RULING

In a 7-to-1 decision (with Justice Breyer dissenting), the Supreme Court vacated the Federal Circuit's judgment. The Supreme Court based its decision on the similarity between the six-year statute in patent law and the three-year statute of limitations in copyright law as applied in *Petrella*. Although the statutes are worded differently,

the Court found that "*Petrella's* reasoning easily fits the provision at issue here." The Court inferred that the six-year patent statute "represents a judgment by Congress that a patentee may recover damages for any infringement committed within six years of the filing of the claim." The Justices were unpersuaded by First Quality's argument that the two statutes are different because § 286 is not a "true statute of limitations" because it "runs backward from the time of suit" as opposed to running forward from the date a cause of action accrues. Referring to this characterization of the statutes as "debatable taxonomy," the Court held that "*Petrella* cannot reasonably be distinguished on this ground."

The Court also addressed the Federal Circuit's reasoning that laches was included within the § 282 defense of unenforceability. Faulting the Federal Circuit *en banc* majority for having "never identified which word or phrase in § 282 codifies laches as a defense," the Court stated that "it would be exceedingly unusual, if not unprecedented, if Congress chose to include in the Patent Act both a statute of limitations for damages and a laches provision applicable to a damages claim." The Court also dismissed the various policy arguments made by First Quality and its supporting *amici*, "because we cannot overrule Congress's judgment based on our own policy views." The Court ultimately held that laches is not available as a defense against damages where the infringement occurred within the period prescribed by § 286.

Although laches will now be gone, the Court noted that the doctrine of equitable estoppel would still "provide[] protection against ...unscrupulous patentees inducing potential targets of infringement suits to invest in the production of arguably infringing products."

## TAKEAWAY

The Supreme Court's *SCA Hygiene* decision could change the way patent holders and potential infringers proceed in the future. It is now clear that patentees may decide when to bring suit without risk of being accused of an unreasonable delay. The patent holder may, for example, wait for several years to see if an infringing product is really succeeding in the marketplace before bringing suit. A patentee no longer needs to be diligent in pursuing litigation, and an accused infringer may no longer point to unreasonable delay or prejudice as a defense. For this reason, potential infringers cannot assume that they are "out of the woods" after a patent holder who has issued a demand letter goes away for a lengthy period. The potential infringer may be sued at any time within six years of infringement—even if the patent holder has known about the infringing product for ten years or more. For this reason, the decision will provide patent plaintiffs with additional flexibility and will undoubtedly trouble patent defendants in the future.

# SUPREME COURT RULES CHEERLEADING UNIFORM DESIGNS ARE COPYRIGHTABLE

[Jennifer Lee Taylor](#) and [Dina Roumiantseva](#)



On March 22, 2017, the Supreme Court held in *Star Athletica, LLC v. Varsity Brands, Inc.* that design elements of cheerleading uniforms

may be protected under the Copyright Act. The 6-2 decision, written by Justice Thomas, clarified the scope of protection afforded to clothing designs and, more broadly, designs on useful articles.

Varsity Brands, Inc.—the country’s largest cheerleading supplier—owns more than 200 copyright registrations for two-dimensional designs consisting of combinations of chevrons, stripes, and other colorful shapes for its cheerleading uniforms.

Varsity Brands sued Star Athletica, LLC, an upstart competitor, for copyright infringement. The District Court for the Western District of Tennessee granted Star Athletica’s motion for summary judgment, holding that the designs could not be conceptually or physically separated from the uniforms, and they were therefore ineligible for copyright protection. The Copyright Act makes “pictorial, graphic, or sculptural features” of the “design of a useful article” eligible for copyright protection as artistic works only if those features “can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article.” The Sixth Circuit reversed, concluding that the graphics were “separately identifiable” and “capable of existing independently” of the uniforms.

In affirming, the Supreme Court laid out a two-part test for when a feature incorporated into the design of a useful article is eligible for copyright protection: when the feature (1) can be perceived as a two- or three-dimensional work of art separate from the useful article; and (2) would qualify as a protectable pictorial, graphic, or sculptural work—either on its own or fixed in some other tangible medium of expression—if it were imagined separately from the useful article into which it is incorporated. “To be clear, the only feature of the cheerleading uniform eligible for a copyright in this case is the two-dimensional work of art,” the Court explained. “Respondents have no right to prohibit any person from manufacturing a cheerleading uniform of identical shape,

cut, and dimensions to the ones on which the decorations in this case appear.”

Protection for fashion designs is a hotly contested topic because such designs do not fit neatly into any form of intellectual property under U.S. laws. Numerous parties filed *amicus curiae* briefs in the case, with the Council of Fashion Designers of America arguing that a ruling for Star Athletica “would have a swift and deleterious effect” and leave fashion designers “defenseless against copyists.” Other groups, meanwhile, argued that protection for useful items should remain the province of patent law, which has stricter limits on eligibility and duration.

Justice Breyer, joined by Justice Kennedy, wrote a strenuous dissent which did not disagree with the majority’s separability test but argued that the designs at issue could not be perceived as works of art separable from the cheerleading uniform because when “imaginatively remov[ed]” and placed on a canvas, the designs would still possess the contours of a cheerleader’s dress. This difference of opinion suggests the difficulties that lower courts may have in applying the Court’s separability test in practice.

Moreover, Justice Breyer voiced concerns with the effect of the ruling on the fashion industry. “A decision by this court to grant protection to the design of a garment would grant the designer protection that Congress refused to provide,” Justice Breyer wrote. “It would risk increased prices and unforeseeable disruption in the clothing industry, which in the United States alone encompasses nearly \$370 billion in annual spending and 1.8 million jobs.”

The Supreme Court’s ruling does not fully resolve the question of whether the designs at issue merit copyright protection, however, as the case will now return to the trial court on the question of whether the designs possess enough originality to be protected by copyright—a separate question from the one addressed by the high court.

While the reach of this ruling remains to be seen, under the standard set forth in *Star Athletica*, separable artistic elements of useful articles, from apparel to furniture, may be easier to register and protect, allowing designers to become more aggressive in preventing copying of their designs. As the lower courts interpret and apply this significant ruling, we are likely to see more cases addressing the scope of copyright protection for artistic elements of useful articles.

If you have any questions regarding registration or protection of your designs, please contact one of the members of our copyright and trademark group.

# LIMITING STATUTORY DAMAGES IN INTERNET COPYRIGHT CASES

By [Paul Goldstein](#) and [Joyce Liou](#)



Under Section 504(c) of the Copyright Act, which permits a range of statutory damages for each infringed work, the principle of joint and several

liability can make a defendant liable for multiple statutory damage awards for infringing a single work.<sup>1</sup> The Ninth Circuit's decision in *Columbia Pictures Television v. Krypton Broadcasting of Birmingham, Inc.*<sup>2</sup> two decades ago illustrates the operation of this principle.

The defendants in *Columbia Pictures* were three television stations that had directly infringed upon plaintiff's copyrights independently of each other. Consequently, the company that owned the three stations was secondarily liable for their infringement. Relying in part on legislative history, the court held that the plaintiff was entitled to separately calculated statutory awards against each of the three stations as they were separate infringers, and that, with respect to these awards, each of the three stations was jointly and severally liable with their common owner.<sup>3</sup>

As applied to infringement on the Internet, statutory damages can have a truly punitive impact when the downstream direct infringements are numerous and the upstream infringer, often an Internet service provider, is secondarily liable. Even if a court exercises its discretion to award no more than the \$750 minimum for each of the separate infringements subject to joint and several liability, a statutory award for tens—or hundreds—of thousands of Internet-based direct infringements could bankrupt all but the most deep-pocketed service provider. The mere prospect of such an award could discourage companies from entering this market.

To avoid punitive statutory damage awards against jointly and severally liable copyright defendants, some courts have invoked proportionality as a principle of statutory interpretation. In *Arista Records LLC v. Lime Group LLC*,<sup>4</sup> for example, a file-sharing service provider faced a potential near-billion dollar damage award for the conduct of a multitude of downstream infringers. The New York district court found that “the most plausible interpretation of Section 504(c) is one that authorizes only a single statutory damage award per work against a secondarily liable defendant, particularly in the context of

the mass infringement found in the context of online peer-to-peer file sharing.”<sup>5</sup> Accordingly, the court limited the plaintiffs' statutory damages to a single statutory damage award per work.

More recently, in *Friedman v. Live Nation Merchandise, Inc.*,<sup>6</sup> the Ninth Circuit adopted a different approach to the joint and several liability conundrum. The court held that, for a plaintiff to recover multiple damage awards against a secondarily liable defendant based on downstream infringement, it must join the direct infringers as defendants. The court found nothing in the text of section 504(c)(1) that “admits of a ‘mass-marketing’ exception” of the sort endorsed in *Arista*, and it observed that its *Columbia Pictures* holding was premised on the fact that each downstream infringer in that case also was a named defendant.<sup>7</sup> Because the plaintiff in *Friedman* had not joined any of the 104 alleged downstream infringers (retailers who distributed the infringing merchandise), their unadjudicated liability could not enlarge his statutory damage award against Live Nation.<sup>8</sup>

Read and applied literally, the statutory formulation could support multiplication of the statutory award against a single contributory infringer by the hundreds of downstream direct infringers with whom it is jointly and severally liable. The *Friedman* decision attempts to avoid this possibility by importing the due process requirement that, for the copyright owner to obtain remedies against the contributory infringer, the direct infringers also must be parties to the action. The *Arista* court presumably would have followed the *Friedman* approach in expanding a statutory award against the secondary infringer if the direct infringers had been joined. As the *Arista* court noted, if the plaintiffs “were suing multiple individually liable infringers in the same lawsuit, they would be entitled to one award with respect to each individual's infringement of any given work.”<sup>9</sup>

Service providers and potential upstream infringers should understand that the current statutory damages regime is particularly unsuitable for Internet cases, and that, while *Friedman* and *Arista* offer expedient solutions for limiting punitive awards, they are neither definitive nor entirely responsive to the problem. As the *Friedman* court noted, there is nothing in the statute to support *Arista's* “mass-marketing” exception to multiple statutory damage awards, much less to indicate how a court should go about drawing a “mass-market” line. Nor does the *Friedman* rule that downstream infringers must be joined as defendants help much in Internet cases, where a plaintiff can identify and join large numbers of defendants with relatively little effort, and even a minimum award of \$750 for each infringement might repay the expense. The real problem with section 504(c)(1) in this respect

is that Congress, when it considered the provision, failed to contemplate secondary liability for infringement on this massive scale. Until the contemporary reality of Internet usage is addressed in the statute, Internet service providers face greater exposure than other alleged infringers.

- 1 17 U.S.C. § 504.
- 2 106 F.3d 284 (9th Cir. 1997), *rev'd on other grounds sub. nom.*, *Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340 (1998).
- 3 *Id.* at 294.
- 4 784 F.Supp.2d 313 (S.D.N.Y. 2011).
- 5 *Id.* at 317, 321.
- 6 833 F.3d 1180 (9th Cir. 2016).
- 7 *Id.* at 1191.
- 8 *Id.*
- 9 *Arista*, 784 F.Supp.2d at 316 n.2.

## RECENT DEVELOPMENTS IN GERMAN PATENT CASE LAW

by [Wolfgang Schönig](#) and [Holger Kastler](#)



In this first episode of recent developments in German patent case law, we focus on four decisions by the Federal

Court of Justice (*Bundesgerichtshof, BGH*). The decisions discussed below relate to (1) the rejection of grace periods in patent law, (2) damage compensation between patent co-owners, (3) the interpretation of patent claims, and (4) security deposits by foreign companies in German patent litigation.

### NO GRACE PERIODS FOR PATENTED PRODUCTS

In its decision of May 10, 2016 (X ZR 114/13), called *Heat Exchanger*, the Federal Court of Justice laid out stringent requirements for grace periods (*Aufbrauchfrist*) with respect to patent infringements.

#### The Case

Since the defendant produced specific heat exchangers (heating systems for car seats in convertibles) that made use of the patent-protected technology, the court granted an injunction against the manufacturing and distribution of such heat exchangers. The defendant demanded a grace period in order to carry out conversion measures and elimination measures.

#### The Decision

The court pointed out that, in contrast to a lawfully produced object that is labelled in a trademark-infringing way or marketed in violation of advertising laws, the patent-infringing product violates the right of a patent

directly. Before the *Heat Exchanger* decision, a grace period had been recognized in certain false advertising and trademark cases. According to the court, the very nature of a patent permits grace periods only in exceptional cases and under stringent requirements. Such exception would be, *e.g.*, economic consequences that go beyond the common and intended detriment of an injunction and which would thus make immediate compliance with the restraining order appear unreasonable.

In the *Heat Exchanger* case, the court did not find any extraordinary conditions justifying a grace period. In fact, the infringing product (heat exchanger) did not constitute an essential feature, but rather an additional feature with regard to the car as a whole. The court also pointed out that the defendant had had the opportunity to obtain a license. That is why in the court's view an immediate enforcement of the injunction was not unreasonable

#### To Note

German patent law (other than trademark and unfair competition law) generally does not allow grace periods for infringing products.

### DAMAGE CLAIMS OF PATENT CO-OWNERS

On September 27, 2016, the Federal Court of Justice, in its decision called *Beschichtungsverfahren* (coating process), decided damage claims of a patent co-owner (X ZR 163/12).

#### The Case

The employees of the plaintiffs and the defendants are co-inventors of an invention relating to a coating process. After the defendants had filed two patent applications, corresponding German and European patents were granted to the defendants.

The plaintiffs claimed that the defendants' application was unlawful, as the invention had been invented solely by one of the plaintiffs and assigned to the other plaintiff. According to the plaintiffs, the invention had been invented solely by one of the plaintiffs and assigned to the other plaintiff. The defendants countered that it was in the plaintiff's interest that the defendants filed the patent application, as there was a risk that another person would file a similar patent application.

While the first instance court decided that the plaintiffs owned a share of 90% of the patented invention, the court of appeals decided that the defendants were obliged to transfer and assign only a certain share of the invention to the plaintiffs. While the court of first instance granted the plaintiff's claim for damage compensation, the court of appeals denied any damages.

## The Decision

The Federal Court of Justice decided that regardless of any urgency to file for a patent, a co-inventor may not file a patent application stating that he or she is the sole inventor of the invention underlying the patent application. Such action not only will be considered unlawful with respect to the community of co-inventors, but it also can lead to damage compensation claims of the co-inventors not listed on the patent application. In order to calculate the actual damages, the court further granted the plaintiff's claims to information and accounting.

### To Note

Filing a patent application by a co-inventor is not considered to be a regular maintenance measure in the interest of the community of co-inventors when the applicant does not disclose all co-inventors on the patent application form. Co-inventors who are not named on the patent application and subsequently do not benefit from its commercialization may claim damage compensation from the co-inventor who filed the patent application.

## INTERPRETATION OF PATENT CLAIMS

On October 5, 2016, the Federal Court of Justice provided further assistance on the interpretation of patent claims in its decision called *Zungenbett* (X ZR 21/15).

### The Case

The German patent-in-suit protects a certain device (*Zungenvorrichtung*) of a switch typically used for tram railways. The defendant produced and sold railway switches with such devices.

As the wording of the patent claim was poorly drafted and ambiguous, it was unclear whether high-quality steel was meant to be used merely for a certain part of the patented device (*Zungenvorrichtung*) or for its entirety. The patent claim started with the term "*Zungenvorrichtung*" (literally translated "tongue device"), which was used three times, but also included the term "*Zungenbett*" (literally translated "tongue bed"), which was used two times. While both terms seemed to be used interchangeably, the patent claim also referred to the second term by subcategorizing it under the first term ("the upper body of the *Zungenvorrichtung* with the *Zungenbett* [...] and the lower part of the *Zungenvorrichtung* [...]").

This led to the question of whether two different terms having a similar meaning may be used as synonyms, or, in other words, if the same term may have two different meanings within one patent claim.

## The Decision

According to the Federal Court of Justice, when in doubt, the same term in a patent claim has to have the same meaning, unless the patent in its entirety suggests a different meaning. Consequently, the term *Zungenvorrichtung* had to be interpreted with the same technical meaning in every feature of the patent claim.

### To Note

The general rule that a patent is its own lexicon still applies. The ambiguous use of one and the same term in a patent claim may not limit the interpretation of such a term to its literal meaning. Rather, when determining the scope of a patent claim, the technical meaning of the claim is decisive. Such determination requires interpretation of the patent claim (not only single terms of it) in view of the whole patent, including its description, drawings, and the solution provided by the patented invention.

## SECURITY DEPOSIT FOR THE COSTS OF THE PROCEEDINGS BY FOREIGN COMPANIES

On June 21, 2016, the Federal Court of Justice addressed whether a foreign company needs to deposit a security if all of its management-related sites are in (different) Member States of the European Union (X ZR 41/15). This question arose because Section 110 of the German Code of Civil Procedure states that, upon request by the defendant, a plaintiff without a seat within the European Union (EU) needs to deposit a security for the costs of the proceedings.

### The Case

The plaintiff is registered in Ireland as a private limited company. Its parent company is a non-practicing entity ("NPE") based in Reno (Nevada, U.S.A.). The address of a law firm in Dublin (Ireland) serves as the statutory seat of the plaintiff. The board of directors consists of two directors: one working from his home in Turku (Finland), and the other from his place of residence in Dublin.

The defendant demanded that the plaintiff deposit a security for the costs of the patent infringement proceedings, arguing that the plaintiff's seat was outside of the EU as the relevant management decisions are taken by the parent company in Nevada (U.S.A.). Both the first instance court and the appeals court rejected the defendant's arguments and decided that no security for the costs of the proceedings needed to be deposited. The defendant filed a further appeal because it remained unclear (i) whether the statutory seat or the administrative office of a company is decisive when deciding on the security deposit, and (ii) whether the

administrative office is the office to which the mail is delivered or where the directors perform their work.

### **The Decision**

The court decided that the administrative office is where the directors are based and fundamental decisions regarding business strategies are converted into continuous acts of management. The court refused to make a final decision on the question of whether the statutory seat or the administrative office of a company is relevant, however, as both places are within the EU in the present case. According to the court, it is of no importance that the two directors worked from different countries (Finland and Ireland), as both countries are

EU Member States. Therefore, the plaintiff's seat was considered to be within the EU, and no security for the costs of the proceedings had to be deposited.

### **To Note**

The requirement to provide a security for the costs of the proceedings is already met by either having one's statutory seat or having an administrative office in a Member State of the EU. Even if a parent company in a third country outside of the EU makes the main decisions and the administrative office of the respective patent owner is basically a mailbox, the plaintiff does not need to provide a security for the costs of the proceedings when filing a patent infringement complaint in Germany.

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